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OP Memorandum No. 443-A
Series of 2024

TO: **Nick Freddy R. Bello, Accounting OIC Head**

RE: **Compliance with Audit Observation Memorandum No. 2024-004 (2023):
Report of the Biological Assets Account**

FROM: 
DR. PROSE IVY G. YEPES
University President

DATE: **May 21, 2024**

In line with the Audit Observation Memorandum (AOM) No. 2024-004 received by the University dated April 25, 2024, regarding the unreliability and inaccuracy of the year-end balance of the Biological Assets account in doubt, you are hereby directed to:

1. Prepare the necessary adjustment on the Breeding Stocks account of VSU Villaba
2. Carefully review all the journal entries made and see to it that all Journal Entry Vouchers (JEVs) are completely supported with the necessary documents; and
3. Regularly and accurately reconcile all recorded amounts in the books with the Quarterly Report on Biological Assets (QRBA) and inventory reports.

Further please be informed that the COA is expecting our feedback on the foregoing audit observations within 15 calendar days from receipt thereof, hence you are hereby directed to submit a reply or an explanation not later than May 24, 2024.

For your information and usual compliance.

cc: OIC Audit Team Lead
VPAF
File

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Republic of the Philippines
COMMISSION ON AUDIT
Regional Office No. VIII
Leyte Government Center, Candahug, Palo, Leyte

**NGS - State Universities and Colleges and
Other NGS Stand - Alone Agencies, Team R8-04**

AOM No.: 2024-004 (2023)

Date: April 25, 2024

AUDIT OBSERVATION MEMORANDUM (AOM)

For: **DR. PROSE IVY G. YEPES**
President, VSU
Visca, Baybay City

Attention: **NICK FREDDY R. BELLO**
Accountant, Main Campus

VIVIAN V. BALBARINO
Head, Supply and Property Office

We have audited the Biological Assets account of the Visayas State University (VSU) as of December 31, 2023, and observed the following:

The reliability and accuracy of the year-end balance of the Biological Assets account reported at ₱382,300.00 is doubtful due to: (a) erroneous adjusting entry and disclosure in the Notes to Financial Statement (FS) amounting to ₱305,820.00; (b) non-recording of biological assets in the books of accounts; (c) non-preparation and non-maintenance of Quarterly Report on Biological Assets (QRBA) and Biological Assets Property Card (BAPC), respectively; and (d) inventory report of biological assets was not updated, contrary to the pertinent provisions of Presidential Decree (PD) No. 1445 and Government Accounting Manual (GAM) for National Government Agencies (NGAs), thus affecting the fair presentation of the account in financial statements.

Section 58 of PD No. 1445 states:

Audit of Assets. The examination and audit of assets shall be performed with a view to ascertaining their existence ownership, valuation and encumbrances as well as the propriety of items composing the respective asset accounts, determining their agreement with records, proving the accuracy of such records; ascertaining if the assets were utilized economically, efficiently and effectively; and evaluating the

adequacy of controls over the accounts.

Section 6 of Chapter 19 of the GAM for NGAs, Volume I, provides:

Sec. 6. Qualitative Characteristics of Financial Reporting. An entity shall present information including accounting policies in a manner that meets the following qualitative characteristics enumerated in PPSAS 1:

X x x

- e. Reliability – reliable information is free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.

Likewise, Section 15, Chapter 2 of the Government Accounting Manual (GAM) for NGAs, Volume 1 provides:

Sec. 15. Fair Presentation. The FSs shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in PPSAS. The application of PPSAS, with appropriate disclosures, if necessary, would result in fair presentation of the FS.

Further, pertinent provisions of Chapter 11 of the GAM for NGAs, Volume I provides:

Sec. 6. Recognition. An entity shall recognize a biological asset or agricultural produce when and only when:

- a. The entity controls the asset as a result of past events;

In agricultural activity, control may be evidenced by, for example, legal ownership of cattle and the branding or otherwise marking of the cattle on acquisition, birth, or weaning.

- b. It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and

The future benefits or service potential are normally assessed by measuring the significant physical attributes.

- c. The fair value or cost of the asset can be measured reliably. (*Par. 13, PPSAS 27*)

X x x

Sec. 9. Gain or Loss. A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset shall be included in surplus or deficit for the period in which it arises. Likewise, a gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell shall be included in surplus or deficit for the period in which it arises. (Pars. 30 & 32, PPSAS 27)

Sec. 11. Narrative Procedures. The procedures of the acquisition and recognition of biological assets are as follows:

X x x

b. Recognition of gain or loss due to physical change

Area of Responsibility	Seq. No.	Activity
Biological Asset's Caretaker/Responsible Person	1	Prepare Quarterly Report of Biological Assets (QRBA) (<i>Appendix 79</i>) containing, among others, the balances at the beginning of the quarter and the changes in fair value of the biological assets due to physical changes such as: a) growth, b) degeneration, c) production, and d) procreation.
	2	Submit the QRBA to the Accounting Division/Unit.
Accounting Division/Unit Accountant/Bookkeeper	3	Prepare JEV to recognize the gain or loss on fair value of the biological asset due to physical changes. (Refer to Sec. 12-Illustrative Accounting Entries of this Chapter)
	4	Post the appropriate accounts in the GJ, GL and SL for biological assets. (Refer to Sec. 55, Chapter 19-Financial Reporting)

c. Recognition of gain or loss due to price changes

Area of Responsibility	Seq. No.	Activity
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Biological Asset's
Caretaker/Responsible
Person

- 1 Regularly, gather data on current fair value of the biological assets and post in the respective individual BAPC.
- 2 Prepare QRBA containing, among others, the balances at the beginning of the quarter and the changes in fair value of the biological assets due to price changes
- 3 Submit to the Accounting Division/Unit the QRBA with the table of current fair values of biological assets.

Accounting Division/Unit
Accountant/Bookkeeper

- 4 Prepare JEV to recognize the gain or loss on fair value of the biological asset. (Refer to Sec. 12-Illustrative Accounting Entries of this Chapter)
- 5 Post the appropriate accounts in the GJ, GL and SL for biological assets. (Refer to Sec. 55, Chapter 19-Financial Reporting)

The University's Statement of Financial Position as of December 31, 2023 reported a balance for Biological Asset accounts of ₱382,300.00. Presented below is the breakdown of the account.

Table 1. Breakdown of Biological Assets Accounts in CY 2023

Account	RAF (01)	(05) IGF	BRF (06)	TF (07)	Total
Beg. Bal. as of Jan. 1, 2023					
Breeding Stocks	₱ 17,000.00	₱91,500.00	₱305,820.00	₱188,600.00	₱602,920.00
Livestock	-	79,200.00	-	-	79,200.00
Livestock Held For Consumptions/ Sale/ Distribution	-	6,000.00	-	-	6,000.00
Sub-total	17,000.00	176,700.00	305,820.00	188,600.00	688,120.00
Less: adjustments	-	-	305,820.00	-	305,820.00
Balance as of Dec. 31, 2023	₱17,000.00	₱ 176,700.00	-	₱188,600.00	₱382,300.00

It can be gleaned in Table 1 that there is only one entry recorded in the books in CY 2023. In this regard, the Audit Team questioned why there was only one entry recorded

when, in fact, several requests for inspection for disposal or death of breeding stocks or livestock were requested by management, and inspection of the same was conducted. Further verification of the account discloses the following deficiencies, to wit:

- a. Erroneous adjusting entry and disclosure in the Consolidated Notes to FS.

Verification of the account revealed that there was an adjusting entry made on the breeding stocks account amounting to ₱305,820.00 under Business-Related Funds (BRF) of VSU Villaba Campus per Journal Entry Voucher (JEV) No. 22-12-015 dated December 31, 2022. The adjustment refers to the reclassification of semi-expandable properties amounting to ₱50,000.00 and below. The said adjustment was recorded in the books of VSU Main Campus on June 30, 2023, per JEV No. 16-2023-06-060. However, Note 10-Biological Assets of the Consolidated Notes to Financial Statements for the Year Ending December 31, 2023, states that the decrease in CY 2023 pertains to the disposal of breeding stocks of VSU Villaba Campus from one of its projects under BRF. The adjustment explanation differs from the disclosure stated in the Notes to FS. With regard also to the adjustment, no complete supporting documents were attached to the JEV; thus, further validation cannot be undertaken.

- b. Inventory reports of Biological Assets are not updated.

A review of the Report of Physical Count of Property Plant and Equipment (RPCPPE) of VSU Main Campus as of December 31, 2023, disclosed reported breeding stocks and livestock totaling ₱281,700.00. Below are the details of the latter in the afore-cited inventory report.

Table 2. Details of Biological Assets in the RPCPPE as of December 31, 2023

Fund	Name of Biological Assets	Quantity	Amount	Accountable Persons	Remarks
STF	Head Fattener Cow	6	₱61,100.00	Eutaquio Sudaria	Retired
	Cow	Not indicated	<u>15,000.00</u>		
	<i>Sub-total</i>		<i>76,100.00</i>		
GF	Ram	1	8,000.00	Lolito Bestil	Retired
	Goat	3	<u>9,000.00</u>	Climaco Espina	Retired
	<i>Sub-total</i>		<i>17,000.00</i>		
Trust	Male Breeder Goats	1	12,500.00	Frederick Renomeron	No Information/Record
	Male Breeder Goats	9	112,500.00	Lolito Bestil	Retired
	Pregnant Doe	12	<u>63,000.00</u>	Lolito Bestil	Retired
	<i>Sub-total</i>		<i>188,000.00</i>		
	Total		₱281,100.00		

The above table shows the accountable persons of the reported assets that are no longer connected to the University. To validate the status of employment of the accountable person, the Audit Team made an inquiry with the Director of the Human Resource and Management Office (HRMO) of the University. Per reply from the latter, it was confirmed that they were already retired from service except for one accountable person whose information was not found. Moreover, the Head of the Supply and Property Office averred that they were not able to update their report and likewise, inventory of the biological assets for CY 2023 was not conducted. Thus, the existence of the above-listed assets was not completely validated.

- c. Non-recording of biological assets in the books of accounts, Quarterly Report on Biological Assets (QRBA) were not prepared, and Biological Assets Property Card (BAPC) was not maintained.

To validate the existence of the biological assets of the University, the Audit Team conducted an inspection of all breeding stocks and livestock located at the VSU Main Campus. For the External campuses, we require the latter to submit an inventory report and pictures of their existing breeding stocks and livestock. Presented in Table 3 are the reported inventories of the said asset as of December 31, 2023.

Table 3. List of Breeding Stocks and Livestock at VSU Main Campus Not Recorded in the Books as of December 31, 2023

No.	Name of Animal	Fund	Quantity	Whereabouts	In-charge
1	Goat	BRF/ IGP	10	Eco FARMI	Odelo B. Baldos
2	Chicken	BRF/ IGP	24	Eco FARMI	Odelo B. Baldos
3	Mallard Duck	BRF/ IGP	7	Eco FARMI	Odelo B. Baldos
4	Muscovy Duck	BRF/ IGP	22	Eco FARMI	Odelo B. Baldos
5	Cow	BRF/ IGP	9	Dept. of Animal Science	Michael Dominic M. Garrido
6	Bull	BRF/ IGP	1	Dept. of Animal Science	Michael Dominic M. Garrido
7	Heifer	BRF/ IGP	11	Dept. of Animal Science	Michael Dominic M. Garrido
8	Calves	BRF/ IGP	2	Dept. of Animal Science	Michael Dominic M. Garrido
9	Goat	BRF/ IGP	16	Dept. of Animal Science	Warren D. Come
10	Sheep	BRF/ IGP	19	Dept. of Animal Science	Warren D. Come



Figure 1. Breeding Stock/ Livestock found at Eco-FARMI at VSU Main Campus

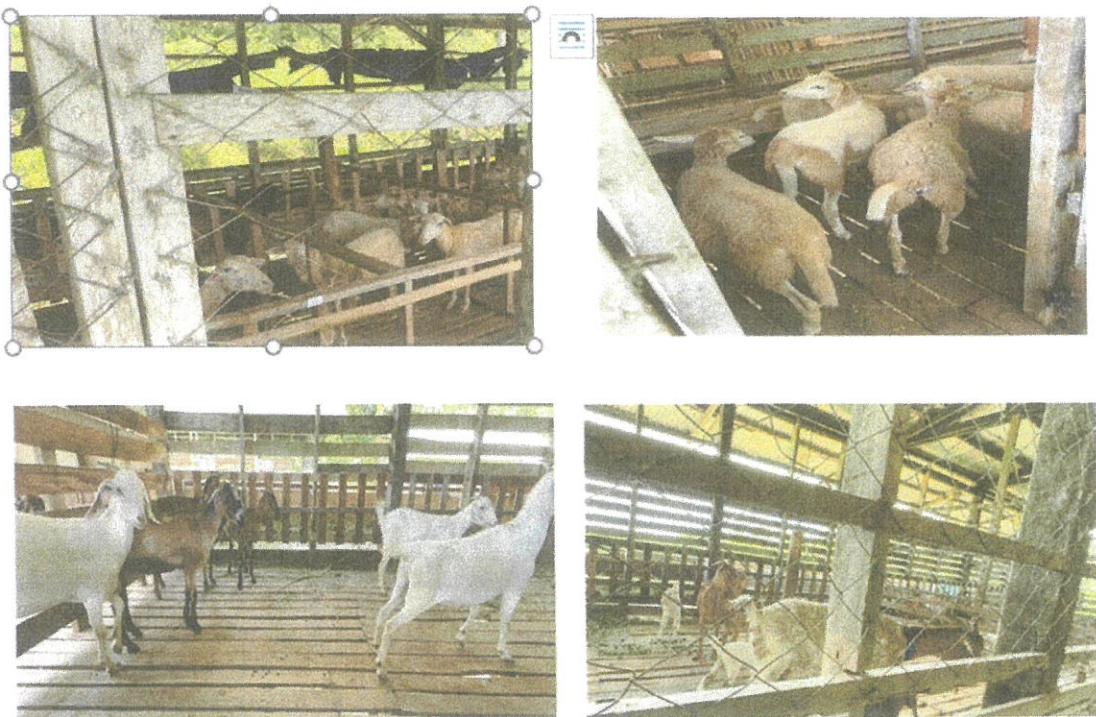


Figure 2a. Breeding Stock/ Livestock found at the Department of Animal Science (DAS) at VSU Main Campus

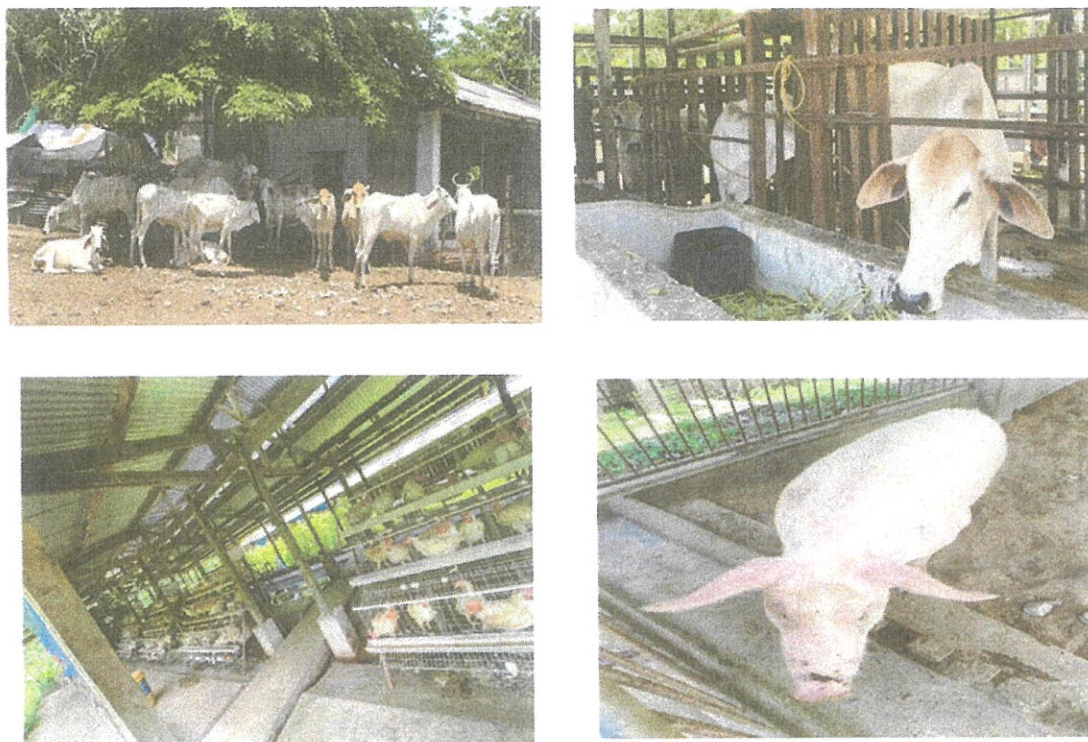


Figure 2b. Breeding Stock/ Livestock found at the Department of Animal Science (DAS) at VSU Main Campus

The above-listed breeding stocks and livestock in Table 3 with photos as shown in Figures 2a and 2b were reported by the Project Charge in their inventory report, except for the poultry and hog. The said report is submitted to the IGP Office together with the sales report. Apparently, all of these biological assets are not recorded in the books since the breeding stocks and livestock account under BRF has no balance, as shown in Table 1. Also, the same was not reported in the Report of Physical Count of Property Plant and Equipment (RPCPPE) of VSU Main Campus. During the conduct of inspection, we made a query with the Project In-Charge regarding the recording of breeding stocks or livestock in the BAPC and QRBA; they averred that they were not aware of such reports. Unfortunately, the Audit Team was not able to make a query regarding the status of the biological assets that were not reported in the inventory report since the Department Head of DAS was on paternity leave.

Table 4. List of Breeding Stocks and Livestock at VSU Alangalang Campus as of December 31, 2023

No.	Name of Animal	Fund	Quantity	Whereabouts	In-charge
1	Doe (Female goat)	STF	9	VSU Alangalang Campus	Mary Rose G. Giban
2	Buck (Male goat)	STF	3	VSU Alangalang Campus	Mary Rose G. Giban
3	Kids & Buckling	STF	2	VSU Alangalang Campus	Mary Rose G. Giban
4	Chicken	STF	241	VSU Alangalang Campus	Mary Rose G. Giban



Figure 3. Breeding Stock/ Livestock found at VSU Alangalang Campus

Table 4 and Figure 3 present the reported breeding stocks and livestock of VSU Alangalang Campus and are still not recorded in the BAPC and QRBA.

Table 5. List of Breeding Stocks and Livestock at VSU Villaba Campus as of April 25, 2024

No.	Name of Animal	Fund	Quantity	Whereabouts	In-charge
1	Doe	BRF/ IGP	12	VSU Villaba Campus	Julz King Yocte
2	Buck	BRF/ IGP	1	VSU Villaba Campus	Julz King Yocte
3	Kid	BRF/ IGP	11	VSU Villaba Campus	Julz King Yocte

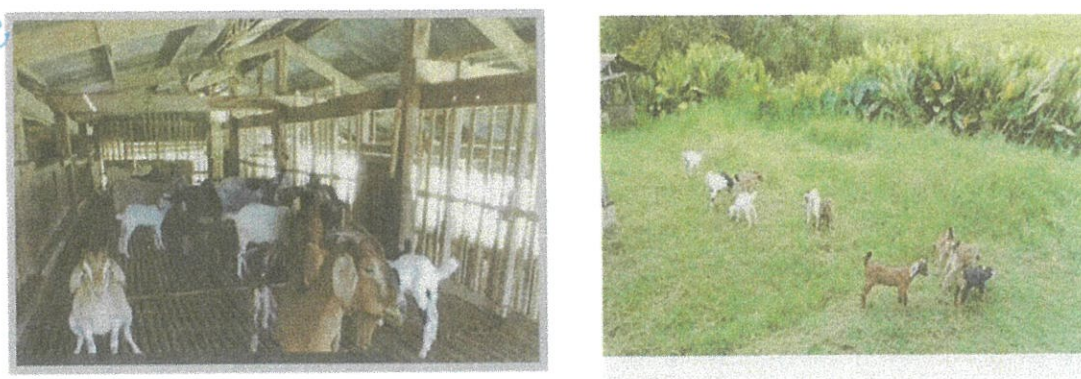


Figure 4. Breeding Stock/ Livestock found at VSU Villaba Campus

Listed in Table 5 and shown in Figure 4 are the reported breeding stocks and livestock of VSU Villaba Campus as of April 25, 2024, because they were not able to provide the year-end inventory report for CY 2023. Likewise, the BAPC and QRBA were not prepared by the Project In-charge.

It may be worthy to note that the aforecited record and report are very important since they will be used to record their offspring, death, and disposal of biological assets and their corresponding value/cost. In addition, the QRBA contains the balances at the beginning of the quarter and the changes in fair value of the biological assets due to physical changes. The changes in data in the QRBA are then posted in the individual BAPC of the asset.

The assertion of the existence of the breeding stocks and livestock as recorded in the inventory report and the non-recording in the books of accounts of the existing ones is clearly negated and affirmed, respectively, by the results of the inspection and inventory of the said assets, and its erroneous recording in the books of accounts and disclosure in the Notes to FS renders the account doubtful and consequently affecting the faithful representation of the year-end balance in the financial statements.

We recommend that the University President direct the Caretaker or In-charge of the biological assets of the VSU Main and External campuses to:

- a. Conduct an inventory together with the Supply and Property Office and Accounting Section and reconcile all records and reports relative thereto;**
- b. Prepare the QRBA and maintain the corresponding BAPC; and**
- c. Submit the QRBA to the Accounting Section with the table of current fair values of biological assets for recording in the books of accounts.**

We further recommend that the University President direct the Head, Supply and Property Office of VSU Main and External campuses to:

- a. Conduct a thorough physical inventory of all biological assets together with the In-charge/ Caretaker of the biological asset and Accounting Section;**
- b. Update the inventory report on all biological assets; and**
- c. Prepare the necessary reports and submit the same to the Accounting Section and COA within the reglementary period.**

Lastly, we further recommend that the University President direct the Accountant to:

- a. Prepare the necessary adjustment on the Breeding Stocks account of VSU Villaba Campus;
- b. Carefully review all the journal entries made and see to it that all JEVs are completely supported with the necessary documents; and
- c. Regularly and accurately reconcile all recorded amounts in the books with the QRBA and inventory reports.

May we have your comments on the foregoing audit observations within five (5) calendar days from receipt hereof.


FLERIDA RUTH R. QUIMBO
 State Auditor III
 OIC, Audit Team Leader


ATTY. HELEN O. FABRA
 State Auditor V
 Supervising Auditor

Proof of Receipt of AOM:
 (Pls. affix your respective signatures)

Name	Designation	Date Received	Signature
Prose Ivy G. Yepes	University President		
Nick Freddy R. Bello	Accountant, Main Campus		
Vivian V. Balbarino	Head, Supply and Property Office		